



Deloitte & Touche LLP Suite 1700

101 South Capitol Boulevard Boise, ID 83702-7717 USA

Tel: +1 208 342 9361 Fax: +1 208 342 2199 www.deloitte.com

INDEPENDENT AUDITORS' REPORT

To the Retirement Board of the Public Employee Retirement System of Idaho:

We have audited the accompanying basic financial statements of the Public Employee Retirement System of Idaho (the "System"), a component unit of the State of Idaho, as of June 30, 2004, and for the year then ended, listed in the foregoing table of contents. These basic financial statements are the responsibility of the System's management. Our responsibility is to express an opinion on these basic financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the basic financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the basic financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, such basic financial statements present fairly, in all material respects, the financial status of the pension funds of the System as of June 30, 2004 and the changes in net assets of the pension funds for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis listed in the table of contents is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. This supplementary information is the responsibility of the System's management. We have applied certain limited procedures which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

As discussed in Note 8, the System adopted the provisions of Governmental Accounting Standards Board Statement No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*.

Our audit was performed for the purpose of forming an opinion on the basic financial statements of the System taken as a whole. The required supplemental schedules on pages 36 through 38 and the additional supplemental schedules on pages 39 through 40 are presented for purposes of additional analysis and are not a required part of the basic financial statements of the System. The required supplemental schedules and the additional supplemental schedules are also the responsibility of the System's management. Such additional information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated in all material respects when considered in relation to the basic financial statements taken as a whole. The Investment Section, Actuarial Section and Statistical Section listed in the Table of Contents are also presented for purposes of additional analysis and are not a required part of the basic financial statements of the System. Such additional information has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on it.

In accordance with *Government Auditing Standards*, we have also issued a report dated November 2, 2004 on our consideration of the System's internal control over financial reporting and our tests of its compliance with certain provisions of laws and regulations and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

November 2, 2004

MANAGEMENT'S DISCUSSION AND ANALYSIS

Management is pleased to provide this Management's Discussion and Analysis (MD&A) of the financial activities of the Public Employee Retirement System of Idaho (PERSI) as of and for the year ended June 30, 2004. This overview and analysis is designed to focus on current known facts and activities and resulting changes. We encourage readers to consider the information presented here in conjunction with information furnished in the Letter of Transmittal, beginning on page 11 of this report.

PERSI administers five fiduciary funds. These consist of two defined benefit pension trust funds, the PERSI Base Plan and the Firefighters' Retirement Fund (FRF), and three defined contribution pension trust funds, the PERSI Choice Plan 401(k) and 414(k) and the Sick Leave Insurance Reserve Fund.

Financial Highlights

Net investment income:

Plan net assets for all pension funds administered by PERSI increased \$1.21 billion during the fiscal year 2004. The increase in the defined benefit plans was primarily due to the upward turn of the stock market. The increase in the Choice Plan 401(k) was due to new contributions in addition to market gains. Each fund experienced an increase in net assets.

Total increase in plan net assets	<u>\$ 1,210,149,051</u>
Sick Leave Insurance Reserve Fund	<u>24,615,936</u>
PERSI Choice Plan 401(k)	29,269,415
PERSI Choice Plan 414(k)	6,458,845
Firefighters' Retirement Fund	27,716,547

Investments for the two defined benefit plans, the PERSI Base Plan and the FRF, are pooled. For the fiscal year ended June 30, 2004, the rate of return net of investment expenses on the pooled investment assets was 17.6% compared with 3.3% for the prior year. All of the plans experienced gains from the market's modest recovery. Net investment income for all of the funds administered by PERSI for the fiscal year ended June 30, 2004, was \$1.18 billion.

PERSI Base Plan	\$ 1,113,594,067
Firefighters' Retirement Fund	31,501,635
PERSI Choice Plan 414(k)	8,319,478
PERSI Choice Plan 401(k)	10,561,147
Sick Leave Insurance Reserve Fund	 17,280,239

Total net investment income \$ 1,181,256,566

As of June 30, 2004, and 2003, the funding ratio (actuarial value of assets divided by actuarial accrued liability) and amortization period for the unfunded actuarial liability for each of the defined benefit plans was:

	2004 Ratio	Amortization Period	2003 Ratio	Amortization Period
PERSI Base Plan	91.7%	7.8 years	83.8%	19.4 years
Firefighters' Retirement Fund	69.5%	10.9 years	58.8%	16.3 years

In 2004, contributions and other income of \$355.6 million exceeded deductions to net assets of \$350.9 million by \$4.7 million. This increase in income and investment gains of \$1.15 brought the Plan's net asset base to \$7.6 billion. For actuarial calculations, PERSI's actuary uses market value to determine the actuarial value of assets. For the July 1, 2004 valuation, the actuarial value of assets for the Base Plan was \$7.4 billion. The aggregate actuarial liability for all PERSI Base Plan employers was \$7.6 billion. On an actuarial basis, the assets held currently fund 83.8 percent of this liability.

PERSI's funding objective is to meet long-term benefit obligations through contributions and investment income. The funding ratio listed above gives an indication of how well this objective has been met at a specific point in time. The higher the funding ratio, the better the plan is funded. For more detailed information and history of the funding ratio, see the Schedule of Funding Progress on page 25 of this report. The actuarial funding ratio for the two defined benefit plans declined because of investment performance below the actuarial expected rate. However, the PERSI Board has initiated a systematic increase in the employee and employer contribution rates to provide a stable funding base and to bring the amortization period below the statutorily required 25-year period for the Base Plan. Because of these contribution rate increases, the amortization period of the unfunded liability has decreased and should continue to do so in the future based on current assumptions.

Using the Annual Financial Report

This discussion and analysis is intended to serve as an introduction to PERSI's financial statements. The financial section is comprised of four components: (1) fund financial statements, (2) notes to the financial statements, (3) required supplementary information, and (4) other supplementary schedules.

Fund Financial Statements—There are two financial statements presented for the fiduciary funds. The Statement of Plan Net Assets as of June 30, 2004 indicates the net assets available to pay future payments and gives a snapshot at a particular point in time. The Statement of Changes in Plan Net Assets for the year ended June 30, 2004 provides a view of the current year's activity. It details the additions and deductions to the individual funds and supports the change to the prior year's ending net asset value on the Statement of Net Assets. All pension fund statements are presented on a full accrual basis and reflect all trust activities, as incurred.

Notes to Financial Statements—The notes provide additional information essential for a full understanding of the data provided in the fund financial statements. The notes to the financial statements can be found on pages 14–23 of this report.

Required Supplementary Information—The required supplementary information consists of a Schedule of Funding Progress and a Schedule of Employer Contributions and related notes concerning the funding status for the defined benefit pension trust funds. These schedules provide historical trend information, illustrating the changes in the funded status over time.

Other Supplementary Schedules—The additional schedules (Schedule of Administrative Expenses and Schedule of Investment Expenses) are presented for additional analysis.

Comparative Financial Statements

Defined Benefit Pension Trust Funds

The PERSI Base Plan and the Firefighters' Retirement Fund are qualified plans under Internal Revenue Code and provide retirement and disability benefits to the employees of affiliated employers. Benefits are funded by member and employer contributions and by earnings on investments. Assets for these plans are pooled for investment purposes.

Defined Benefit Pension Trust Funds Net Assets

	As of	As of		
	June 30, 2004	June 30, 2003	\$ Change	% Change
Assets				
Cash	\$ 3,319,118	\$ 4,601,647	\$ (1,282,529)	(27.9)%
Investments sold receivable	712,838,249	423,823,952	289,014,297	68.2 %
Other receivables	37,985,473	34,399,504	3,585,969	10.4 %
Investments, at fair value	7,702,033,786	6,541,160,698	1,160,873,088	17.7 %
Prepaid retiree payroll	24,930,718	23,368,629	1,562,089	6.7 %
Capital assets, net of				
accumulative depreciation	4,550,368	5,969,402	(1,419,034)	(23.8)%
Total assets	8,485,657,712	7,033,323,832	1,452,333,880	20.6 %
Liabilities				
Investments purchased payable	829,687,740	528,243,843	301,443,897	57.1 %
Benefits and refunds payable	492,672	272,338	220,334	80.9 %
Other liabilities	6,987,207	6,122,413	864,794	14.1 %
Total liabilities	837,167,619	534,638,594	302,529,025	56.6 %
Net assets available for benefits	<u>\$ 7,648,490,093</u>	\$ 6,498,685,238	<u>\$ 1,149,804,855</u>	17.7 %

The fiscal year ended June 30, 2004 was most notably marked by an overall upturn in the investment markets. Other Receivables is higher at the end of FY 2004 because of an increase in interest and dividends receivable.

The percent change in Investments Sold Receivable and Investments Purchased Payable fluctuates as the volume of securities bought and sold by PERSI's professional investment managers' changes. The cash balance fluctuates due to operating cash requirements and the timing of transfers to investment managers. These fluctuations are normal.

Defined Benefit Pension Trust Funds Changes in Net Assets

	Year Ended	Year Ended		
	June 30, 2004	June 30, 2003	\$ Change	% Change
Addition o				
Additions			.	/
Employee contributions	\$ 131,237,106	\$ 131,280,812	\$ (43,706)	(0.0)%
Employer contributions	224,336,265	216,809,495	7,526,770	3.5 %
Investment income	1,145,095,702	208,318,818	936,776,884	449.7 %
Other additions	68,284	132,967	(64,683)	(48.6)%
Total additions	1,500,737,357	556,542,092	944,195,265	169.7 %
Deductions				
Benefits and refunds paid	343,940,999	314,095,652	29,845,347	9.5 %
Administrative expenses	6,991,503	6,614,117	377,386	5.7 %
Other deductions		1,217	(1,217)	(100.0)%
Total deductions	350,932,502	320,710,986	30,221,516	9.4 %
Changes in net assets available				
for benefits	\$ 1,149,804,855	\$ 235,831,106	\$ 913,973,749	387.6 %



Investment Income and Changes in Net Assets Available for Benefits increased from FY 2003 to FY 2004 because of an upward swing in the investment market. Other Deductions decreased because there were no transfers out of the Plan for Gain Sharing distributions.

Defined Contribution Pension Trust Funds

During FY 2004, PERSI administered three defined contribution plans. The PERSI Choice Plan, a qualified plan under Internal Revenue Code, consists of a 401(k) plan and a 414(k) plan and provides retirement benefits to members of the Defined Benefit Pension Trust Funds. The Sick Leave Insurance Reserve Fund (the Fund) provides payment of retiree health insurance premiums on behalf of retired state and school employees, based on accumulated unused sick leave at the time of retirement. The Fund's contributions are financed by state agency and school district employers of the System.

The Choice Plan was created during FY 2001. The 401(k) Plan consists of employee voluntary contributions, rollover contributions, and some employer matching contributions. The 414(k) Plan represents the Gain Sharing allocation made to eligible PERSI members during FY 2001. The assets of this Plan cannot be used to pay the benefits of the 401k Plan and vice versa. Prior to and during the first quarter of FY 2002, PERSI also administered the Idaho Super Saver 401(k) Plan, a qualified 401(k) defined contribution pension plan, open only to the employees of the State of Idaho. Employees were allowed to make tax-deferred contributions through September 2001, when the Plan was merged into the PERSI Choice Plan 401(k).

Beginning with the year ending June 30, 2004, the Sick Leave Insurance Reserve Fund was reclassified from an agency fund to a defined contribution plan with the implementation of GASB Statement No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*. For clarity in this presentation, the Sick Leave Insurance Reserve Fund will be reported separately from the PERSI Choice Plan.

PERSI Choice Plan Net Assets

	As of	As of June 30, 2003	¢ Changa	% Changa
	June 30, 2004	Julie 30, 2003	\$ Change	% Change
Assets				
Cash	\$ 112,694	\$ 195,899	\$ (83,205)	(42.5)%
Investments, at fair value	138,709,542	103,477,653	35,231,889	34.0 %
Other receivables	823,671	250,823	572,848	228.4 %
Total assets	139,645,907	103,924,375	35,721,532	34.4 %
Liabilities				
Other liabilities		6,728	(6,728)	(100.0)%
Net assets available for benefits	<u>\$ 139,645,907</u>	<u>\$ 103,917,647</u>	\$ 35,728,260	34.4 %

Investments increased from FY 2003 to FY 2004 because of the increase in employee contributions and the upward swing in the investment market. Other Receivables are primarily contributions that are not yet recorded by the recordkeeper at year end. Liabilities were recorded in FY 2003 because of June 2003 management fees that weren't charged to the Plan accounts until July 2003.

PERSI Choice Plan Changes in Net Assets

	Year Ended June 30, 2004	Year Ended June 30, 2003	\$ Change	% Change
A 1 Pg.	,	, ,	,	,
Additions	A 17 100 000	A 44 500 005	A A A A A A A A A A	40.00/
Employee contributions	\$ 17,489,692	\$ 14,582,027	\$ 2,907,665	19.9 %
Employer contributions	236,121	286,535	(50,414)	(17.6)%
Investment income	18,880,625	3,868,374	15,012,251	388.1 %
Transfers in	3,318,115	2,062,334	1,255,781	60.9 %
Total additions	39,924,553	20,799,270	19,125,283	92.0 %
Deductions				
Benefits and refunds paid	2,219,650	1,951,818	267,832	13.7 %
Transfers out	1,976,643	1,553,832	422,811	27.2 %
Total deductions	4,196,293	<u>3,505,650</u>	690,643	19.7 %
Changes in net assets available				
for benefits	\$ 35,728,260	<u>\$ 17,293,620</u>	\$ 18,434,640	106.6 %

Investment Income increased from FY 2003 to FY 2004 because of an upward swing in the investment market. Transfers In and Out only include rollovers from/to other plans. Employee Contributions grew due to an increase in the number of employees with salary deferrals. Changes in Employer Contributions vary up or down according to individual employers' desire to match employee contributions.

Sick Leave Insurance Reserve Fund Net Assets

	As of	As of		
	June 30, 2004	June 30, 2003	\$ Change	% Change
Assets Cash and short-term investments Receivables	\$ 3,092 1,280,632	\$ 81,049 1,256,772	\$ (77,957) 23,860	(96.2)% 1.9 %
Investments, at fair value Total assets	<u>163,689,994</u> 164,973,718	139,002,638 140,340,459	24,687,356 24,633,259	17.8 % 17.6 %
Liabilities Other liabilities	35,459	18,136	17,323_	95.5 %
Net assets available for benefits	<u>\$ 164,938,259</u>	<u>\$ 140,322,323</u>	<u>\$ 24,615,936</u>	17.5 %

The decrease in Cash and Short-term Investments is due to a higher cash balance held at the State Treasurer's Office in FY 2003 because of actual expenditures being less than expected for June 2003. The change in the payable Due to State Agencies and School Districts is due to the change in presentation of the Plan from an agency fund, which requires a balance sheet, to a defined contribution plan, which requires a net assets statement.

Sick Leave Insurance Reserve Fund Changes in Net Assets

	Year Ended June 30, 2004	Year Ended June 30, 2003	\$ Change	% Change
Additions				
Employee contributions	\$ 16,490,818	\$ 15,001,769	\$ 1,489,049	9.9 %
Investment income	17,280,239	9,058,450	8,221,789	90.8 %
Other additions	9,410	18,863	(9,453)	(50.1)%
Total additions	33,780,467	24,079,082	9,701,385	40.3 %
Deductions				
Benefits and refunds paid	9,164,531	7,852,029	1,312,502	16.7 %
Changes in net assets available				
for benefits	<u>\$ 24,615,936</u>	<u>\$ 16,227,053</u>	\$ 8,388,883	51.7 %

For FY 2004, PERSI changed the presentation of the Sick Leave Insurance Reserve Fund from an agency fund to an Other Postemployment Benefit (OPEB) in accordance with a new accounting standard issued by the Governmental Accounting Standards Board in April 2004. In FY 2003, no statement of changes in net assets was presented since it was not required under the agency fund disclosure guidance. In order to present comparable totals for FY 2003, the balances have been restated as disclosed in the Notes to the Financial Statements Note 8.

Investment Income increased from FY 2003 to FY 2004 because of an upward swing in the investment market. Other Additions decreased because of the lower cash balance held at the State Treasurer's Office, which resulted in less interest earned.

Plan Membership

This table reflects PERSI Base Plan and Choice Plan membership at the beginning and end of the fiscal year.

Changes in Plan Membership

	E	Base Plan		C	hoice Plan	
	2004	2003	Change	2004	2003	Change
Active participants Actively contributing	63,385	62,385	1.6 %	41,836 6,778	43,141 5,414	(3.0)% 25.2 %
Vested	39,999	38,947	2.7 %			
Non-vested	23,386	23,438	(0.2)%			
Retirees & beneficiaries	26,043	24,991	4.2 %	420	1,685	(75.1)%
Terminated vested	8,118	7,897	2.8 %	6,388	3,988	60.2 %

While the above table reflects changes in active participants, the following table demonstrates the changes in retirees and beneficiaries during the period.

Changes in Retirees & Beneficiaries (Base Plan)

Beginning July 1, 2003	24,991
Retirements	1,848
Death of retiree/beneficiary	(796)
Ending June 30, 2004	26,043

Investment Activities

Long-term asset growth is vital to the Defined Benefit Plans' current and continued financial stability. Therefore, trustees have a fiduciary responsibility to act with prudence and discretion when making plan investment decisions. To assist the Board in this area, a comprehensive formal investment policy is updated periodically. As managers are added, specific detailed investment guidelines are developed, adopted, and become part of that manager's agreement.

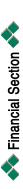
Portfolio performance is reviewed monthly by the Board and its consultants. Performance is evaluated individually, by money manager style, and collectively by investment type and for the aggregate portfolio. Investment types include both domestic and international equities, domestic and international fixed income, and real estate.

Economic Factors

PERSI, like any pension fund, has a broad range of opportunities for investment in the open market, as well as many choices for asset allocation and investment managers. For purposes of comparison, the table of Investment Results in the Investment Section of our Comprehensive Annual Financial Report indicates various index returns, which are reflective of the market environment available.

As a result of the FY 2002 amortization period calculation being 39.3 years, the Board increased contribution rates 1% per year for three years beginning July 2004. The maximum amortization period allowed by state law for the Base Plan is 25 years. With the consideration of this increase, our amortization period before any cost of living adjustment (COLA) as of July 1, 2004 is 7.8 years.

During FY 2004, an actuarial study of PERSI experience from July 1, 1999 through June 30, 2003 was done. An experience study is an analysis of economic assumptions and active member demographics. This study resulted in some changes to the economic assumption and relatively minor changes to the demographic assumption. Actuarial assumptions are estimates as to the occurrence of future events affecting such things as changes in pension costs, compensation, and rates of investment earnings and are used to measure and budget future costs. The most significant changes in the economic assumption involve the recommended reduction of the inflation assumption from 4.00% to 3.75% and the general wage increase assumption from 4.75% to 4.50%. To maintain the 4.00% real investment return target derived from our asset allocation, the investment assumption would need to decrease from 8.00% to 7.75%. These changing assumptions will not change the actual cost of future benefits but will result in a slight decrease to the funding of the benefits. The effective date of these changes was June 30, 2004, and the changes are included in the actuarial valuation dated July 1, 2004.



COMBINING STATEMENT OF PLAN NET ASSETS—PENSION FUNDS JUNE 30, 2004 WITH COMPARATIVE TOTALS FOR JUNE 30, 2003

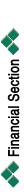
			Pension Funds				
		Firefighters'			Sick Leave Insurance		
ASSETS	PERSI Base Plan	Retirement Fund	PERSI Ch 414(k)	PERSI Choice Plan 4(k) 401(k)	Reserve Fund	Totals 2004	Totals 2003
CASH AND CASH EQUIVALENTS	\$ 3,227,431	\$ 91,687	↔	\$ 112,694	\$ 3,092	\$ 3,434,904	\$ 4,878,595
INVESTMENTS—At fair value: Fixed income investments: Domestic International Idaho commercial mortgages Short-term investments Real estate	1,789,951,916 58,235,485 252,587,571 270,037,127 58,038,809	50,850,025 1,654,388 7,175,659 7,671,376 1,648,801			64,618,651	1,905,420,592 59,889,873 259,763,230 277,708,503 59,687,610	1,519,149,316 75,515,642 298,552,298 222,250,094 33,523,520
Equity Securities: Domestic International Private equity Mutual funds	3,289,954,424 1,611,899,566 158,569,113	93,462,993 45,791,807 4,504,726	53,977,831	84,731,711	99,071,343	3,482,488,760 1,657,691,373 163,073,839 138,709,542	2,926,413,179 1,467,728,583 137,030,704 103,477,653
Total investments	7,489,274,011	212,759,775	53,977,831	84,731,711	163,689,994	8,004,433,322	6,783,640,989
RECEIVABLES: Investments sold Contributions Interest and dividends	693,228,036 5,000,361 32,065,073	19,610,213 12,974 907,065	182.600	339,259 301,812		712,838,249 5,352,594 33,456,550	423,823,952 6,298,149 28,352,178
Total receivables	730,293,470	20,530,252	182,600	641,071		751,647,393	458,474,279
ASSETS USED IN PLAN OPERATIONS—Net	4,550,368					4,550,368	5,969,402
DUE FROM OTHER FUNDS					1,280,632	1,280,632	1,256,772
RETIREE PAYROLL IN PROCESS	24,930,718					24,930,718	23,368,629
TOTAL ASSETS	\$ 8,252,275,998	\$ 233,381,714	\$ 54,160,431	\$ 85,485,476	\$ 164,973,718	\$ 8,790,277,337	\$ 7,277,588,666



COMBINING STATEMENT OF PLAN NET ASSETS—PENSION FUNDS JUNE 30, 2004 WITH COMPARATIVE TOTALS FOR JUNE 30, 2003

			Pension Funds					
	PERSI	Firefighters' Retirement	PERSI CI	PERSI Choice Plan	Sick Leave Insurance Reserve	F	Totals	
LIABILITIES AND FUND BALANCE	Base Plan	Fund	414(K)	401(k)	Fund	2004	2003	ı
LIABILITIES: Accrued liabilities Benefits and refunds payable Due to other funds	\$ 5,558,042 492,672 1,280,632 806,863,909	\$ 148,533	⇔	Ф	\$ 35,459	\$ 5,742,034 492,672 1,280,632 820,687,740	\$ 4,890,505 272,338 1,256,772 528,243,843	
III VOSIIII EII BUILI DIE BUILI EI EI TOTAL LIABILITIES	814,194,338	2,973,281			35,459	837,203,078	534,663,458	
NET ASSETS HELD IN TRUST FOR PENSION BENEFITS (see supplementary schedules of funding progress)	\$ 7,438,081,660	\$ 210,408,433	\$ 54,160,431	\$ 85,485,476	\$ 164,938,259	\$ 7,953,074,259	\$ 6,742,925,208	

(Concluded)



COMBINING STATEMENT OF CHANGES IN PLAN NET ASSETS—PENSION FUNDS YEAR ENDED JUNE 30, 2004 WITH COMPARATIVE TOTALS FOR YEAR ENDED JUNE 30, 2004

			Pension Funds				
	<u>0</u>	Firefighters'	5 889	PERSI Choice Plan	Sick Leave Insurance Reserve	Ē	7.00 le
	Base Plan	Fund	414(k)	401(k)	Fund	2004	2003
ADDITIONS: Contributions: Members Employers Transfers in	\$ 131,089,520 212,612,908	\$ 147,586 11,723,357	€9	\$ 17,489,692 236,121 3,318,115	\$ 16,490,818	\$ 148,726,798 241,063,204 3,318,115	\$ 145,862,839 232,097,799 2,062,334
Total contributions	343,702,428	11,870,943		21,043,928	16,490,818	393,108,117	380,022,972
Investment income: Net appreciation in fair value of investments Interest, dividends and other investment income Less: investment expenses	941,608,584 199,704,643 (27,719,160)	26,636,466 5,649,296 (784,127)	8,384,355 35,598 (100,475)	7,317,598 3,251,586 (8,037)	17,375,355	1,001,322,358 208,641,123 (28,706,915)	49,520,200 197,053,439 (25,327,997)
Net investment income	1,113,594,067	31,501,635	8,319,478	10,561,147	17,280,239	1,181,256,566	221,245,642
Other-net	68,284				9,410	77,694	151,830
Total additions	1,457,364,779	43,372,578	8,319,478	31,605,075	33,780,467	1,574,442,377	601,420,444
DEDUCTIONS: Benefits and refunds paid to members and beneficiaries Administrative expenses Transfers out	328,284,968 6,991,503	15,656,031	197,414 1,663 <u>,219</u>	2,022,236	9,164,531	355,325,180 6,991,503 1,976,643	323,899,499 6,614,117 1,555,049
Total deductions	335,276,471	15,656,031	1,860,633	2,335,660	9,164,531	364,293,326	332,068,665
INCREASE IN NET ASSETS	1,122,088,308	27,716,547	6,458,845	29,269,415	24,615,936	1,210,149,051	269,351,779
NET ASSETS HELD IN TRUST—Beginning of year	6,315,993,352	182,691,886	47,701,586	56,216,061	140,322,323	6,742,925,208	6,473,573,429
NET ASSETS HELD IN TRUST—End of year	\$ 7,438,081,660	\$ 210,408,433	\$ 54,160,431	\$ 85,485,476	\$ 164,938,259	\$ 7,953,074,259	\$ 6,742,925,208

See notes to financial statements.

NOTES TO FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2004

1. GENERAL DESCRIPTION OF THE FUNDS

General—The Public Employee Retirement System of Idaho (the System) is the administrator of five pension plans including two defined benefit retirement plans, the Public Employee Retirement Fund Base Plan (PERSI Base Plan) and the Firefighters' Retirement Fund (FRF); and three defined contribution plans, the Public Employee Retirement Fund Choice Plans 401(k) and 414(k) (PERSI Choice Plan) and the Sick Leave Insurance Reserve Fund.

Reporting Entity—The System is a component unit of the State of Idaho and is included in the State of Idaho Comprehensive Annual Financial Report. The basic financial statements of the System include the financial activities of all of the above funds. A retirement board (the Board), appointed by the Governor and confirmed by the Idaho Senate, manages the System, which includes selecting the funding agents and establishing funding policy.

Defined Benefit Retirement Plans—The PERSI Base Plan and FRF are both cost-sharing, multiple-employer defined benefit retirement plans that provide benefits based on members' years of service, age, and highest average salary. In addition, benefits are provided for disability, death, and survivors of eligible members or beneficiaries.

Statutes governing the PERSI Base Plan are Title 59, Chapter 13 and Title 50, Chapter 15 of <u>Idaho Code</u>. Statutes governing FRF are Title 72, Chapter 14 of <u>Idaho Code</u>.

Members become fully vested in their retirement benefits with five years of credited service (5 months for elected or appointed officials). Members are eligible for retirement benefits upon attainment of the ages specified for their employment classification. The annual service retirement allowance for each month of credited service is 2.0% (2.3% police/firefighters) of the average monthly salary for the highest consecutive 42 months.

State agencies, school districts, cities, counties, highway districts, water and sewer districts, and other political subdivisions contribute to the System. As of June 30, 2004, the number of participating employer units in the PERSI Base Plan was:

Cities	143
School districts	132
Highway and water districts	120
State subdivisions	99
Counties	40
Other	<u> </u>
	675

As of June 30, 2004, the number of benefit recipients and members in the System consisted of the following:

Members, retirees and beneficiaries currently receiving benefits during the fiscal year and terminated employees entitled to benefits but not yet receiving them:

Members: Active

Active	63,385
Terminated and vested	8,118
Retirees and beneficiaries	26,043



FRF has 22 participating employer units all consisting of fire departments participating in the PERSI Base Plan. As of June 30, 2004, there were 42 active members and 582 retired members or beneficiaries collecting benefits from FRF. The FRF covers a closed group of firefighters who were hired before October 1, 1980 and who receive benefits in addition to those provided under the Base Plan. The cost of these additional benefits is paid by FRF member and employer contributions and receipts from a fire insurance premium tax.

The benefit payments for the PERSI Base Plan and FRF are calculated using a benefit formula adopted by the Idaho Legislature. The Base Plan is required to provide a 1% minimum cost of living increase per year provided the Consumer Price Index increases 1% or more. The Retirement Board has the authority to provide higher PERSI Base Plan cost of living increases to a maximum of the Consumer Price Index movement or 6%, whichever is less; however, any amount above the 1% minimum is subject to review by the Idaho Legislature. The cost of living increase for the FRF is based on the increase in the statewide average firefighter's wage.

The PERSI Base Plan and FRF benefits are funded by contributions from members and employers and earnings from investments. Additional FRF funding is obtained from receipts from a state fire insurance premium tax. Member and employer contributions are paid as a percentage of applicable member compensation. PERSI Base Plan member contribution rates are defined, by state law, as a percentage of the employer contribution rate. FRF member contribution rates are fixed by state law. Employer contribution rates are recommended by periodic actuarial valuations and are subject to the approval of the Retirement Board and limitations set forth in state statute. Valuations are based on actuarial assumptions, the benefit formulas, and employee groups of the System.

Costs of administering the fund are financed through the contributions and investment earnings of the System.

Upon termination of employment, accumulated member contributions plus interest, accrued at 3.22% January 1, 2004 through June 30, 2004 (1.90% July 1, 2003 to December 31, 2003) compounded monthly per annum, are refundable. Withdrawal of such accumulated contributions results in forfeiture of the member's accrued benefit; however, state law does include provisions for reinstatement of forfeited service upon repayment of the accumulated contributions plus interest.

Defined Contribution Retirement Plans—The PERSI Choice Plans and the Sick Leave Insurance Reserve Fund are defined contribution retirement plans. The statute governing the Choice Plans is <u>Idaho Code</u> Title 59, Chapter 13. The statutes governing the Sick Leave Insurance Reserve Fund are <u>Idaho Code</u>, Sections 67-5339, 33-1216, 59-1365, and 33-1228.

The PERSI Choice Plans are defined contribution pension plans made up of a qualified 401(k) plan and a 414(k) plan. The assets of the two plans within the Choice Plan are commingled for investment and recordkeeping purposes. Participants direct their investment mix without restriction and may elect to change their salary deferral every pay period. The 401(k) portion of the Choice Plan is open to all active PERSI Base Plan members and was established February 1, 2001. On May 1, 2001, this Plan became open to voluntary employer matching contributions at rates determined by the employers. Beginning in January 2002, employees could make tax-deferred contributions at 1–100% of their gross salary less deductions and subject to the IRS annual contribution limit. The 414(k) portion of the Choice Plan was established for Gain Sharing allocations from the PERSI Base Plan. The Gain Sharing amount (if any) is based on funding levels in the Base Plan. Eligibility for Gain Sharing requires twelve months of active PERSI Base Plan membership as defined in Idaho statutes and PERSI rules. On February 1, 2001, all eligible Base Plan members who were active as of June 30, 2000, and eligible to receive Gain Sharing contributions, received an allocation.

The System has entered into a contract with Mellon Human Resources & Investor Solutions (MHR&IS) for plan recordkeeping services relating to the eleven investment options, which are mutual or collective funds. The funds include the PERSI Total Return Fund (PERSI TRF), seven equity funds, two fixed income funds, and a stable value fund. Participants may allocate their assets in 1% increments among these options; however, if no allocation preference is indicated, a default investment election to the PERSI TRF is made. The PERSI TRF is a unitized fund comprised of investment accounts of the PERSI Base Plan.

The PERSI Choice Plan has 675 employer units eligible to have participating employees. As of June 30, 2004, there were 48,644 participants with balances in the Choice Plan. Some of these participants are in both the 414(k) Plan and the 401(k) Plan. As of June 30, 2004, the Choice Plan 414(k) had 44,297 participants, and the Choice Plan 401(k) had 16,659. The administrative expenses of the PERSI Choice Plan, most of which are paid to MHR&IS, are funded by the PERSI Base Plan.

For the Sick Leave Insurance Reserve Fund, school districts, state agencies, and participating employers in Idaho provide payment of postretirement health insurance premiums on behalf of former employees based on unused accumulated sick leave at their retirement date. Employers are responsible for any unfunded benefit obligations. The System administers these funds on behalf of the employers, who fund the program by remitting a percentage of payroll to the System to cover future insurance premiums.

School District Employees—For school district employees, the unused sick leave amount available for benefit is based on one-half of their sick leave balance and rate of compensation at retirement.

State Employees—State employees are limited to the number of allowable hours of sick leave they may use as part of the unused sick leave program as follows:

Credited Hours of State Service	Maximum Allowable Sick Leave Hours
0-10,400 (0-5 years)	420
10,401-20,800 (5-10 years)	480
20,801-31,200 (10-15 years)	540
31,201+ (15 years or more)	600

Members may use one-half of sick leave hours accrued up to the allowable maximum multiplied by their rate of compensation at retirement.

The rate for state agency and school district contributions was .65% and 1.15% of covered salary at June 30, 2004, respectively.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting—The System's basic financial statements are prepared utilizing the accrual basis of accounting. Employee and employer contributions are recognized as additions to net assets when due and receivable, pursuant to formal commitments and statutory or contractual requirements, investment income is recognized when earned, and benefit payments and refunds and other expenses are recorded when the benefits are due and payable in accordance with the plans' terms. The pension funds are accounted for on a flow of economic resources measurement focus. The System adheres to Statement No. 25 of the Governmental Accounting Standards Board ("GASB No. 25"), Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans.

Investments—The System's investments are presented at fair value. Purchases and sales are recorded at the trade date. Investments held by the PERSI Base Plan, FRF, and the PERSI TRF (an option of the PERSI Choice Plan) are commingled.

The Board utilizes and directs individual fund managers to provide whatever investment management and custodial functions the Board has determined best achieves the System's investment objectives. Each fund manager is generally granted full discretion in making investment decisions, within asset allocation policy, portfolio policy, and other special restrictions set by the Board. The Board monitors overall investment performance and periodically evaluates the performance of each fund manager. The Board in its administration of the System and management of the investment program is guided by the Idaho Uniform Prudent Investor Act, Sections 68-501 through 68-514 of the <u>Idaho Code</u> and of fiduciary responsibilities in the <u>Idaho Code</u>, Section 59-1301, and is empowered in its sole discretion to limit, control, and designate the types and amounts of investments.

The fair value of investments is based on published market prices and quotations from major investment brokers, when available. Mortgages have been valued on the basis of their future principal and interest payments discounted at prevailing interest rates for similar instruments. The fair value of real estate investments has been estimated based on independent appraisals. Short-term investments are reported at market value, when published market prices and quotations are available, or at cost plus accrued interest, which approximate market value.

The System purchases forward contracts for certain international investments and United States of America agency-guaranteed collateralized mortgage obligations for the purpose of enhancing liquidity, reducing transaction or other costs, or partially hedging an existing exposure. The System does not incur any costs for forward contracts until the settlement date. Future potential obligations for the forward contracts are not recognized until the contract expiration date.

Use of Estimates—The preparation of the financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of net assets and liabilities, disclosure of contingent liabilities, and the actuarial present value of accumulated plan benefits at the date of the financial statements. Actual results could differ from those estimates. The System utilizes various investment instruments. Investment securities, in general, are exposed to various risks, such as interest rate, credit, and overall market volatility. Due to the level of risk associated with certain investment securities, it is reasonably possible that changes in the values of investment securities will occur in the near term and that such changes could materially affect the amounts reported in the financial statements.

Assets Used in Plan Operations—These assets represent buildings and computer software development costs used by the System and are recorded at cost. Depreciation and amortization are provided on the straight-line method over the estimated useful lives of the assets. The estimated useful life for buildings is 30 years. The estimated useful life of the computer software development costs is five years.

"Totals"—The information as of and for the year ended June 30, 2003, presented in the "Totals" column on the accompanying combining basic financial statements, does not present consolidated financial information and is not necessary for a fair presentation of the basic financial statements but is presented only to facilitate financial analysis and for comparison purposes.

New Accounting Standards—In March 2003, the GASB issued Statement No. 40, *Deposit and Investment Risk Disclosures*. Statement No. 40 amends GASB Statement No. 3, *Deposits with Financial Institutions, Investments (including Repurchase Agreements)*, and Reverse Repurchase Agreements. The objective of this Statement is to update the custodial credit risk disclosure requirements of GASB Statement No. 3 and to establish more comprehensive disclosure requirements addressing other common risks of the deposits and investments of state and local governments. The System has not completed the process of evaluating the impact that will result from adopting this statement. The requirements of this statement are effective for the System's fiscal year ending June 30, 2005.

In April 2004, the GASB issued Statement No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans.* This statement supersedes guidance included in GASB Statement 26, *Financial Reporting for Postemployment Healthcare Plans Administered by Defined Benefit Pension Plans* and provides further details on distinguishing an Other Postemployment Benefit Plan (OPEB) from a pension plan and the different reporting requirements for each. The requirements of this statement are effective for the System's fiscal year ending June 30, 2006. The System has implemented this statement early for the year ended June 30, 2004. It reclassifies the Sick Leave Insurance Reserve Fund from an agency fund to a defined contribution plan (see Note 8).

3. CASH AND CASH EQUIVALENTS

The System's cash and cash equivalents are deposits at financial institutions. Such deposits for the year ended June 30, 2004 are categorized below to give an indication of the level of collateral risk assumed by the System at year end. Category 1 includes deposits that are insured or collateralized with securities held by the System or its agent in the System's name. Category 2 includes uninsured deposits collateralized with securities held by the pledging financial institution's trust



department or agent in the System's name. Category 3 includes uninsured deposits that are uncollateralized. The carrying amount of deposits, which approximates the bank balances, by such categories at June 30, 2004, consisted of the following:

Category 1	\$ 100,000
Category 2	-
Category 3	1,188,604
Total	\$ 1.288.604

The following is a reconciliation of the amounts recorded as deposits in the combining statement of plan net assets and the amounts categorized above as deposits:

Deposits reported on combining statement of plan net assets	\$ 3,434,904
Less: deposits held by the State Treasurer not categorized	(2,146,300)
Total deposits categorized	<u>\$ 1,288,604</u>

4. INVESTMENTS

The System's investments are categorized below to give an indication of the level of risk assumed by the System at June 30, 2004. Category 1 includes investments that are insured or registered, or for which the securities are held by the System or its agent in the System's name. Category 2 includes uninsured and unregistered investments for which the securities are held by the counterparty's trust department or agent in the System's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the counterparty whether or not in the System's name; or by the counterparty's trust department or agent but not in the System's name.

	Investment Ris	k Categ	ory	
	1	2	3	Total
Domestic fixed income	\$ 1,840,801,941	None	None	\$ 1,840,801,941
International fixed income	59,889,873	None	None	59,889,873
Domestic equities	3,383,417,417	None	None	3,383,417,417
International equities	1,657,691,373	None	None	1,657,691,373
	\$ 6,941,800,604			6,941,800,604
Investments not subject to categorization due to their nature:				
Pooled short-term investment funds				277,708,503
Idaho commercial mortgages				259,763,230
Real estate				59,687,610
Private equity				163,073,839
Mutual, commingled, and unitized funds (Choice Plan)				138,709,542
Index fund and fixed income fund (Sick Leave Insurance	Reserve Fund)			163,689,994
				1,062,632,718
Total investments				\$ 8,004,433,322



For the year ended June 30, 2004, Mellon Trust was the global custodian for the majority of the investments of the combined PERSI Base Plan, FRF, and PERSI Choice Plan. Clearwater Advisors, LLC is the System's cash manager and invests the bulk of the System's cash in short-term instruments. At June 30, 2004, Clearwater Advisors managed approximately 70% of the System's short-term investments. The remainder of the pooled short-term investment funds is invested in bank-maintained collective investment funds established under Massachusetts law pursuant to a Declaration of Trust dated February 27, 1967, as amended. They maintain their tax-exempt status under Revenue Ruling 81-100 and are exempt from registration as mutual funds under Section 3(c)(11) of the Investment Company Act of 1940. Participation is limited to qualified employee benefit plans and government plans for which Boston Safe Deposit Trust Company, or its bank affiliates, maintain a trust, agency or custody relationship. The fair value of the position in the external investment pool for non-SEC registered investments is the same as the value of the pool shares.

Net appreciation (depreciation) in fair value of investments includes realized and unrealized gains and losses on investments during the year. The calculation of net realized gain (loss) on sale of investments is independent of the calculation of net appreciation in fair value of investments. Net unrealized gain (loss) in fair value of investments sold in the current year, which had been held for more than one year, are included in net appreciation in fair value of investments as reported in prior years and the current year. Components of net appreciation in the fair value of investments are as follows:

	PERSI Base Plan	FRF	PERSI Choice Plan	Sick Leave Insurance Reserve Fund
Net realized gain on sale of investments Net unrealized gain in fair	\$ 357,354,546	\$ 10,108,937	\$ 6,062,031	\$ 1,407,310
value of investments	584,254,038	16,527,529	9,639,922	15,968,045_
Net appreciation in fair value of investments	<u>\$ 941,608,584</u>	\$ 26,636,466	<u>\$ 15,701,953</u>	<u>\$ 17,375,355</u>

The System has entered into forward foreign exchange contracts to purchase or sell currency at various dates in the future at a specific price. The value of foreign currency to be purchased or sold fluctuates continuously. As such, it is possible that the foreign currency market price at the specified time to purchase or sell may be lower than the price at which the System is committed to buy or sell. The System could sell the forward contract at a loss, or if it were to continue to hold the contract, the System may make a termination payment to the counterparty to cancel its obligation under the contract and then buy the currency on the open market. The System is also exposed to the failure of the counterparty to fulfill the contract. The terms of the contract include provisions for recovering the cost in excess of the guaranteed price from the counterparty should the System have to purchase currency on the open market. Unrealized gains of \$199,345 at June 30, 2004 were recognized, which represents the gain which would occur from executing forward foreign exchange contracts at June 30, 2004.

5. ASSETS USED IN PLAN OPERATIONS

Assets used in plan operations at June 30, 2004 consist of the following:

Buildings and improvements Less: accumulated depreciation	\$ 5,428,864 (2,374,470)
	3,054,394
Computer software development costs Less: accumulated amortization	6,331,360 (4,835,386)
	1,495,974
	<u>\$ 4,550,368</u>

For the year ended June 30, 2004, depreciation expense on the buildings and improvements was \$152,762, and amortization expense on the computer software development costs was \$1,266,272. Both of these costs are included in administrative expenses.

6. CONTRIBUTIONS

The System's funding policy for the PERSI Base Plan and FRF is determined by the Board within limitations, as defined by Idaho law. The funding policy provides for periodic employer contributions at actuarially determined rates, that expressed as percentages of annual covered payroll, are adequate to accumulate sufficient assets to pay benefits when due. Level percentages of payroll employer contribution rates are determined using the Entry Age Actuarial Cost Method for the PERSI Base Plan and a modified aggregate funding method for FRF. Under the Entry Age Actuarial Cost Method, the actuarial present value of the projected benefits of each individual included in the actuarial valuation is allocated on a level basis over the earnings of the individual between entry age and assumed exit age. FRF amortizes the difference between the value of the FRF benefits not provided by the Base Plan and the FRF assets over the earnings of all firefighters. The PERSI Base Plan amortizes any unfunded actuarial accrued liability based on a level percentage of payroll. FRF amortizes any unfunded liability based on a level dollar amount. The maximum amortization period for the Base Plan permitted under Section 59-1322, Idaho Code, is 25 years. The maximum amortization period for FRF permitted under Section 59-1394, Idaho Code, is 50 years. The payroll for employees covered by the PERSI Base Plan and FRF was approximately \$2,087,000,000 and \$40,000,000, respectively.

Actuarial valuations of the PERSI Base Plan and FRF are performed annually. The last valuations were performed as of July 1, 2004.

Normal cost is 14.03% of covered payroll and the amount available to amortize the unfunded actuarial liability is 4.79% of covered payroll for the PERSI Base Plan. There is no normal cost associated with FRF, and all contributions to FRF are available to pay benefits and reduce the unfunded actuarial liability. Police and Fire employers' contribution rates increased 1/10% effective July 1, 2003, as a result of a new death benefit. The PERSI Board also approved a contribution rate increase of 1% per year for 3 years beginning July 1, 2004, for a total increase of 3% split between employers and employees.

The contribution rates for the year ended June 30, 2004 and subsequent years through June 30, 2007, are as follows:

Optional Retirement Plan employees of higher education:

Colleges and universities 3.03 % Junior colleges 3.83 %

	Active Me	embers	Emplo	oyers
	General/	Fire/	General/	Fire/
	Teacher	Police	Teacher	Police
Current Contribution Rate	5.86 %	7.21 %	9.77 %	10.11 %
Increase Effective July 1, 2004	0.37 %	0.44 %	0.62 %	0.62 %
Rate July 1, 2004	6.23 %	7.65 %	10.39 %	10.73 %
Increase Effective July 1, 2005	0.37 %	0.44 %	0.61 %	0.61 %
Rate July 1, 2005	6.60 %	8.09 %	11.00 %	11.34 %
Increase Effective July 1, 2006	0.37 %	0.44 %	0.61 %	0.61 %
Rate July 1, 2006	6.97 %	8.53 %	11.61 %	11.95 %

FRF employer and employee contribution rates for firefighters hired before October 1, 1980 are 25.89% and 4.24%, respectively, in addition to the PERSI Police and Fire rates shown above. The employer contribution rate for firefighters hired after October 1, 1980 is 17.24%, in addition to the PERSI Police and Fire rate shown above. FRF employer rates will increase along with the PERSI Base Plan rates in FY 2005, 2006, and 2007.

7. COMMITMENTS

The accrual basis of accounting provides that expenditures include only amounts associated with goods and services received and liabilities include only the unpaid amounts associated with such expenditures. Accordingly, approximately \$1,164,000 of outstanding purchase orders and purchase commitments are encumbered by the System but not reported in the basic financial statements at June 30, 2004.

8. IMPLEMENTATION OF NEW PRONOUNCEMENT

As discussed in Note 1, GASB issued Statement No. 43 in April 2004 which established criteria for identifying an Other Postemployment Benefit Plan (OPEB) and the reporting requirements for such plans. The System has determined that the Sick Leave Insurance Reserve Fund (the Fund) meets the definition of an OPEB and has elected to implement the statement early for the year ended June 30, 2004. Previous to the new guidance, the Fund was presented as an agency fund, which did not require a statement of changes in net assets. In order to present comparable totals for 2003, the following 2003 balances have been restated to reflect changes in net assets of the Fund:

	As Previously Presented	Changes	After Implementation
Contributions—employees Investment income:	\$ 217,096,030	\$ 15,001,769	\$ 232,097,799
Net appreciation in fair value of assets	40,395,034	9,125,166	49,520,200
Investment expenses	(25,261,281)	(66,716)	(25,327,997)
Other—net	132,967	18,863	151,830
Deductions—benefits and refunds paid			
to members and beneficiaries	(316,047,470)	(7,852,029)	(323,899,499)
Increase in net assets	253,124,726	16,227,053	269,351,779
Net assets held in trust—beginning of year	6,349,478,159	124,095,270	6,473,573,429
Net assets held in trust—end of year	6,602,602,885	140,322,323	6,742,925,208

SCHEDULES OF FUNDING PROGRESS—PUBLIC EMPLOYEE RETIREMENT FUND AND FIREFIGHTERS' RETIREMENT FUND FISCAL YEARS 1999–2004 (Dollars in millions)

Actuarial Valuation Date	(1) Actuarial Value of Assets	(2) Actuarial Accrued Liability (AAL)	(3) PV of Future ORP Contributions	(4) Unfunded AAL (UAAL) (2) - (1) - (3)	(5) Funded Ratios (1) : [(2) - (3)]	(6) Annual Covered Payroll	(7) UAAL as a Percentage of Covered Payroll (4):(6)
PERSI		(a.)		(b.)	(c.)	(d.)	
July 1, 1999	\$ 6,171.9	\$ 5,536.8	\$ 68.9	\$ (704.0)	112.9 %	\$ 1,733.5	(40.6)%
July 1, 2000	7,032.9	6,105.1	70.5	(998.3)	116.5	1,827.2	(54.6)
July 1, 2001	6,492.8	6,751.3	72.2	186.3	97.2	1,975.3	9.4
July 1, 2002	6,062.1	7,209.5	71.7	1,075.7	84.9	2,047.1	52.5
July 1, 2003	6,297.8	7,578.8	66.4	1,214.6	83.8	2,057.7	59.0
July 1, 2004	7,420.2	8,154.8	63.5	671.1	91.7	2,115.4	31.7

- (a.) Actuarial present value of benefits less actuarial present value of future normal costs based on entry age actuarial cost method.
- (b.) Actuarial accrued liabilities less actuarial value of assets and present value of future ORP contributions.

 Amounts reported in this table do not include the value of the discretionary COLA or Gain Sharing allocations granted after the valuation date. If negative, amount is referred to as a funding reserve.
- (c.) Funded Ratio is the ratio of the actuarial value of assets over the actuarial accrued liabilities less the present value of future ORP contributions.
- (d.) Covered Payroll includes compensation paid to all active employees on which contributions are calculated.

(1) Actuarial (2) Actuarial Market Actuarial Valuation Value Accrued Date of Assets Liability (AAL) (a.)		(3) Unfunded AAL (UAAL) (2) - (1)	(4) Funded Ratios (1): (2)	(5) Annual Covered Payroll (b.)	(6) UAAL as a Percentage of Covered Payroll (3): (5)
\$ 179.0	\$ 284.0	\$ 105.0	63.0 %	\$ 28.0	375.0 %
217.8	293.4	75.6	74.2	30.8	245.5
200.4	316.2	115.8	63.4	32.9	352.0
181.5	300.3	118.8	60.4	34.4	345.3
182.7	310.7	128.0	58.8	37.0	345.9
210.4	302.6	92.2	69.5	39.8	231.7
	Actuarial Market Value of Assets \$ 179.0 217.8 200.4 181.5 182.7	Actuarial (2) Market Actuarial Value Accrued of Assets Liability (AAL) \$ 179.0 \$ 284.0 217.8 293.4 200.4 316.2 181.5 300.3 182.7 310.7	Actuarial (2) (3) Market Actuarial Unfunded Value Accrued AAL (UAAL) of Assets Liability (AAL) (2) - (1) \$ 179.0 \$ 284.0 \$ 105.0 217.8 293.4 75.6 200.4 316.2 115.8 181.5 300.3 118.8 182.7 310.7 128.0	Actuarial (2) (3) (4) Market Actuarial Unfunded Funded Value Accrued AAL (UAAL) Ratios of Assets Liability (AAL) (2) - (1) (1): (2) \$ 179.0 \$ 284.0 \$ 105.0 63.0 % 217.8 293.4 75.6 74.2 200.4 316.2 115.8 63.4 181.5 300.3 118.8 60.4 182.7 310.7 128.0 58.8	Actuarial (2) (3) (4) (5) Market Actuarial Unfunded Funded Annual Value Accrued AAL (UAAL) Ratios Covered of Assets Liability (AAL) (2) - (1) (1) : (2) Payroll (b.) \$ 179.0 \$ 284.0 \$ 105.0 63.0 % \$ 28.0 217.8 293.4 75.6 74.2 30.8 200.4 316.2 115.8 63.4 32.9 181.5 300.3 118.8 60.4 34.4 182.7 310.7 128.0 58.8 37.0

- (a.) FRF actual valuations were performed biennially through July 1, 1999, and annually thereafter.
- (b.) Annual covered payroll includes compensation paid to all active firefighters hired prior to October 1, 1980.

 Annual Covered Payroll differs from Active Member Valuation Payroll, which is an annualized compensation of only those members who were active on the actuarial valuation date.

SCHEDULES OF EMPLOYER CONTRIBUTIONS—PUBLIC EMPLOYEE RETIREMENT FUND AND FIREFIGHTERS' RETIREMENT FUND FISCAL YEARS 1999—2004 (Dollars in millions)

	PERSI					FRF				
Er			mploye	nployer Contributions			Employer Contributions (c.)			
Year	Total Annual				Total		Annual			
Ended June		Employer		Required	Percentage	E	mployer	F	Required	Percentage
30	•	ontributions tatutory) (a.)	•	ontribution ARC) (b.)	Contributions	Cor	ntributions	Co	ntribution	Contributions
1999	\$	173.1	\$	173.1	100.0 %	\$	8.6	\$	8.6	99.1 %
2000		182.9		155.7	117.5		8.7		8.6	100.4
2001		197.9		152.2	130.0		9.2		6.3	147.3
2002		205.5		155.1	132.5		9.6		9.3	102.2
2003		206.7		188.3	110.0		10.1		9.5	107.1
2004		212.6		213.5	97.0		11.7		10.2	114.9

⁽a.) For 2001, this includes \$77,690,500 of gain sharing credits. Actual cash contributions were \$120,220,992.

⁽b.) For PERSI employers, the Annual Required Contribution (ARC) is equal to the normal cost rate plus a 25-year amortization of any Unfunded Actuarial Accrued Liability or minus a 25-year amortization of any Funding Reserve amount. The ARC determined as of the valuation date is applicable for employers' fiscal years commencing October 1, of the calendar year following the valuation date. For Optional Retirement Plan (ORP) employers, the ARC is equal to 3.03% of salaries of university members in the ORP until 2015 and 3.83% of salaries of junior college members in the ORP until 2011.

⁽c.) FRF actuarial valuations were performed biennially through July 1, 1999, and annually thereafter.

PUBLIC EMPLOYEE RETIREMENT SYSTEM OF IDAHO NOTES TO REQUIRED SUPPLEMENTARY INFORMATION YEAR ENDED JUNE 30, 2004

1. ACTUARIAL INFORMATION

The information presented in the required supplementary information was prepared for GASB disclosure purposes and may differ from the funding determination as of the dates indicated. Additional information as of the latest actuarial valuation for GASB purposes is as follows:

	PERSI	FRF
Valuation date	July 1, 2004	July 1, 2004
Actuarial cost method	Entry age actuarial cost	Entry age actuarial cost
Amortization method	Level percentage of projected payroll—open	Level dollar amount—closed
Remaining amortization period	25 years	32 years
Asset valuation method	Market value	Market value
Actuarial assumptions:		
Investment rate of return	7.75 %	7.75 %
Projected salary increases—	5.00 % - 11.50 %	4.50 %
Includes salary inflation	4.50 %	4.50 %
Postretirement benefit increase	1.00 %	4.50 %
Implied price inflation rate	3.75 %	3.75 %

SCHEDULE OF INVESTMENT EXPENSES YEAR ENDED JUNE 30, 2004

INVESTMENT AND RELATED SERVICES: Apollo Management

INVESTMENT AND RELATED SERVICES:	
Apollo Management	\$ 285,120
Baring Asset Management, Inc.	1,311,898
Sanford C. Bernstein	101,755
Bloomberg, LP	55,782
Brandes Investment Partners, LP	1,534,877
Callan Associates	117,500
Capital Guardian Trust Company	1,061,873
Chadwick, Saylor & Co., Inc.	115,885
Chisholm Partners, LP	320,064
Choice Plan Managers	108,512
Clearwater Advisors, LLC	235,215
D.B. Fitzpatrick & Co., Inc.	1,575,740
Delaware International Advisors	43,542
Deutsche Bank	139,953
Donald Smith & Company	69,774
Frazier Technology Ventures	99,797
Furman Selz Investments	119,255
GMAC	18,502
Galen Associates	710,299
Genesis Asset Managers, Ltd.	1,236,025
Goense Bounds & Partners, LP	92,713
Gores Capital Partners	242,398
Green Equity Investors	118,570
Hamilton Lane Advisors, Inc.	205,037
Harvest Partners III, LP	289,255
Highway 12	131,518
Lend Lease Rosen	1,900,412
Littlejohn & Company	400,000
McCown DeLeeuw & Company	237,189
Mellon Capital Management	747,217
Mellon Trust	2,557,831
MFS Institutional Advisors, Inc.	98,770
Mountain Pacific Investment Advisors, Inc.	922,010
Nautic Partners, LP	184,529
Pareto Partners	882,803
Providence Investments	844,645
Prudential Investments	335,049
R.V. Kuhns & Associates	32,728
Rowe Price International, Inc.	957,114
Schroder Capital Management International, Inc.	1,215,363
Societe Generale	1,096,513
State Street Global Advisors	323,525
T3 Partners II, LP	487,856
TCW Asset Management	62,814
Thomas H. Lee	42,416
	(Continued)



SCHEDULE OF INVESTMENT EXPENSES

YEAR ENDED JUNE 30, 2004

INVESTMENT AND RELATED SERVICES (Continued): Tukman Capital Management, Inc. W. Capital Partners Wells Fargo Bank Zesiger Capital Group	\$ 1,429,293 300,000 65,930
	26,886,416
CONSULTING SERVICES:	
Calhoun Law Group	600
Deloitte & Touche LLP	41,525
Mellon Human Resources & Investor Solutions	1,258,350
Foster, Pepper, Shefelman PLLC	254,212
Milliman, Inc.	245,812
William M. Mercer, Inc.	20,000
	1,820,499
	<u>\$ 28,706,915</u>
	(Concluded)

SCHEDULE OF ADMINISTRATIVE EXPENSES

YEAR ENDED JUNE 30, 2004

TEAN ENDED JOINE 30, 2004	
PORTFOLIO-RELATED EXPENSES:	PERSI Base Plan
Personnel expenses	\$ 369,420
Operating expenses	135,727
Capital outlay	6,601
	511,748
OTHER ADMINISTRATIVE EXPENSES:	
Personnel expenses	2,765,822
Operating expenses	2,216,510
Capital outlay	78,389
Building depreciation expense	152,762
Software amortization expense	1,266,272_
	6,479,755
	\$ 6,991,503





Deloitte & Touche LLPSuite 1700
101 South Capitol Boulevard
Boise, ID 83702-7717

Tel: +1 208 342 9361 Fax: +1 208 342 2199 www.deloitte.com

USA

INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED UPON AN AUDIT PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

We have audited the financial statements of the Public Employee Retirement System of Idaho (the System) as of and for the year ended June 30, 2004, and have issued our report thereon dated November 2, 2004. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

In planning and performing our audit, we considered the System's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance

As part of obtaining reasonable assurance about whether the System's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws and regulations, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the Retirement Board and management and is not intended to be and should not be used by anyone other than these specified parties.

November 2, 2004